

C mmunity *Liaison*

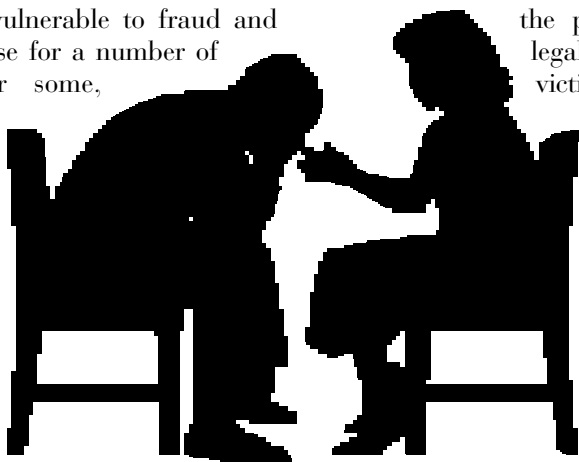
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Domestic Financial Abuse of the Elderly

The Problem

Financial exploitation of the elderly and dependent adults is a significant problem affecting millions of seniors across the country. The potential for fraud and financial abuse increases dramatically with age and only a small percentage of cases are ever reported. Senior citizens are particularly vulnerable to fraud and financial abuse for a number of reasons. For some, physical or mental impairments make them dependent on others to manage their financial affairs. Others support family members who depend on them for money or housing, sometimes because of alcohol or substance abuse problems. In many cases, elderly victims are unable to recognize, or embarrassed to admit, that financial abuse has occurred. And social isolation, often encouraged or manipulated by the abuser, may make the victim fearful of retaliation or unable to seek help for him or herself.



While the media spotlights high profile fraud cases related to predatory lending, scams, telemarketing and sweepstakes, domestic financial abuse is also a pervasive problem. The perpetrator is generally a family member, friend, caregiver, or anyone with whom the victim has established a trusting relationship. In general, the perpetrator uses legal access to the victim's assets as a means of exploitation. Examples of financial abuse include forgery, mismanagement or embezzlement of funds, unauthorized transfer or sale of personal or real property, undue influence, and fraud. The names of perpetrators have been found listed on victim's bank accounts, powers of attorney, home equity or other loans, wills, and quit claim deeds. A victim's assets may be stripped before he/she is aware of the illegal activities.

Ways that Financial Institutions Can Help Prevent Financial Abuse

Because financial institutions administer accounts, trusts and other financial assets, employees are in a unique position to recognize signs of financial exploitation. Several essential elements of an elder financial abuse prevention program can easily be integrated into an institution's fraud prevention program:

- Frontline employees and their supervisors, such as tellers, account representatives and

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customer service representatives can be trained to recognize potential warning signs of elder financial abuse or fraud.

- Staff can be encouraged to get to know their elderly customers and become familiar with their banking habits and account activity.
- Internal procedures can be developed that outline the appropriate staff responses when abuse is suspected and the steps the institution will take to report possible cases of financial exploitation. Procedures might include designating a senior officer in each branch who can be responsible for evaluating and reporting instances of suspected financial exploitation.
- A variety of educational and consumer outreach activities can be provided as a service to older account holders. Written materials that provide examples of abusive practices and fraud related schemes and show steps customers can take to protect themselves from fraud can be distributed at teller windows or at information kiosks. Educational outreach activities could include sponsoring financial literacy seminars for local seniors focusing on their unique risks for abuse and exploitation.

Training of staff is important not only as a means of helping to identify potential abuses but also in helping staff differentiate between financial exploitation and legitimate situations where family members must act on behalf of their elders.

Even with training, bank employees are often reluctant to report suspected cases of abuse because of concern about violating privacy laws. To remedy this, several states, such as Oregon, have passed laws shielding banks from liability for reporting suspected financial abuse of their customers. A similar law is currently pending in California. Check with the Attorney General's office, adult protective services office or the bankers association in your state to see if similar laws have been passed or if other techniques that help potential victims while protecting the financial institution are available.

Community *Liaison*

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Innovative Financial Institution Responses to Preventing Financial Abuse

A number of financial institutions are actively involved in initiatives in their states to educate staff and potential victims about financial exploitation of the elderly. Supported by a grant awarded by the U.S. Department of Justice, Office of Victims of Crime, the Oregon Bankers Association and the Senior and Disabled Services Division of the State of Oregon's Department of Human Resources, along with other partners, have developed a training kit entitled *"Preventing Elder Financial Exploitation: How Banks Can Help."* It includes two easy to follow manuals with accompanying videos - one for training staff on how to recognize and subsequently report possible elder financial exploitation; the second on how banks can conduct seminars for seniors. The second manual and video, *"Seminars for Seniors: A 'How to' for Bankers,"* features a series of financial seminars developed and presented by Evergreen Federal, an OTS regulated institution in Grants Pass, OR. Each manual includes sample marketing materials and brochures.

A copy of the kit has been provided to the adult protective service agency, Attorney's General office, and state bankers associations in every state. Permission has been given to copy and reproduce the written and taped components, and to modify as appropriate for any given state. Financial institutions can check with their state protective services agencies to see if the video and written material have been modified for use in their state. The kit is also available for purchase from the Oregon Department of Human Resources, Senior and Disabled Services Division.

Another initiative is The California Community Partnership for the Prevention of Financial Abuse (CCPPFA)--the first statewide public/private partnership designed to train employees of financial institutions to recognize and report financial abuse of elders and dependent adults. In conjunction with the local Adult Protective Services offices, it has trained over 150 financial institution staff.

Statistics for the state of California indicate that of 225,000 annual reported cases of elder abuse, 60,000 involve financial exploitation. In response to this problem, the

CCPPFA is planning a regional public awareness campaign scheduled for October 2000. The campaign will include development of a prototype package for sponsoring institutions that includes a bank staff training video and collateral materials that can be customized with the logo of each institution and local contact numbers. The first phase of the program will be rolled out in Marin, Sonoma and San Francisco counties in northern California.

Currently, the CCPPFA is supported by twenty-three banks and thrifts doing business in Marin and Sonoma counties. OTS regulated thrifts who support the partnership include Washington Mutual, which has committed financial support for the public awareness campaign in all three counties, First Federal Savings and Loan of San Rafael, CalFed, Citibank and Luther Burbank Savings.

"Training of staff is important . . . to identify potential abuses . . . to help staff differentiate between financial exploitation and legitimate situations."

On a more local level, WISE Senior Service, located in Santa Monica, CA, with the assistance of the Los Angeles County Area Agency on Aging Fiduciary Abuse Specialist Team (FAST), developed *"Financial Abuse of Seniors: How to Protect Your Customer & Financial Institution, A Handbook for Financial Institutions"*. The purpose of the handbook is to facilitate a partnership between financial institutions, law enforcement, and government and social services agencies in combating abuse of seniors in California. Using the handbook as part of its education outreach, FAST has trained over 1,200 bankers and fraud investigators.

The following web sites are recommended for information on elder abuse: National Center on Elder Abuse at www.gwjapan.com/NCEA/; and, the Administration on Aging at www.aoa.dhhs.gov. Also, contact your state office of Adult Protective Services. For information about the *"Preventing Elder Financial Exploitation: How Banks Can Help"* training kit or its usage, contact Aileen Kaye, Abuse Prevention Program Coordinator, Senior and Disabled Services Division, at (503) 945-6399. For information on the California Community Partnership for Prevention of Financial Abuse, contact Kimberly Petrini, Novato Community Bank, at (415) 898-5400. For information on WISE, contact Susan Aziz, Vice President of Advocacy and Education Programs, at (310) 394-4090 ■

If you have questions about this article, please contact Marie Friederichs, OTS West Region, at (206) 553-5469.

Five Thrifts Honored in 2000 Community Partnership Awards Ceremony

The Federal Home Loan Bank System 2000 Community Partnership Awards is a national awards program, now in its sixth year, which recognizes unique and noteworthy projects across the country in the fields of affordable housing and community development.

Each of the 12 Federal Home Loan Banks selects two projects - one for affordable housing and one for community economic development - that exemplify effective partnerships between financial institutions and community-based organizations, and that have been carried out with the assistance and support of the Federal Home Loan Banks. The range of needs being met by these partnerships is extraordinary. They include providing housing for very low-income people and for the disabled, supporting small business start-ups and expansion, providing housing to Native American populations, and building community facilities.

At the annual awards program in May, five thrift institutions received awards:

Home City Federal Savings Bank, Springfield, OH

Home City Federal Savings Bank, a \$113 million institution in Springfield, utilized over \$1.5 million in Community Investment Program (CIP) funds to finance the acquisition and rehabilitation or expansion of five local businesses, thereby creating or retaining jobs within the Greater Springfield, Ohio area:

■ **Buckeye Fire and Safety Products:** When the owner was faced with the possibility of

having to close the company, Home (with CIP funds) was able to finance the acquisition by a new owner (18 jobs retained).

■ **Bychrome Limited:** Home City's loan enabled a Springfield based printing company to purchase Bychrome Limited and relocate this business from Columbus to Springfield (10 new jobs created).

■ **D&D Properties:** Home City's loan allowed the company to expand its existing storage and maintenance facility.

■ **Porter-Qualls Funeral Home:** Home City's loan allowed a local minority entrepreneur to acquire and renovate this minority-owned small business.

■ **Abbot & Pomputius Medical Office:** Owned by two women, this is the only medical office providing general medical services in its neighborhood. Through Home City's loan, the facility was rehabilitated and expanded.

Federal Home Loan Bank CIP funds were used for three specific reasons: First, the interest rate was less than the institution's normal cost of funds; second, due to difficulties in attracting new deposits, CIP funds are an attractive source of funds; and third, Home City was able to strategically match the terms (in years) of the CIP funds to the terms of the subsequent loans to the businesses.

Why these businesses? According to Home City President Ulery, an important consideration was the positive impact these transactions

would have on the local community. Moreover, having done these types of deals for years, Home City felt very comfortable with the merits of the transactions, the creditworthiness and business expertise/acumen of borrowers, stability and potential of the business enterprises, etc.

Small business lending is obviously nothing new to Home City. Home City does a fair amount of small business lending in its community. President Ulery believes they are able to attract local business customers because the institution is local and understands the local economy and market better than other competitors. Home City has the advantage of local decision makers. Moreover, institution employees "grew up" with many of the principals of these businesses.

President Ulery also noted that these loans, which ranged from \$200,000 to \$400,000, were the foundation of a growing full service banking relationship with each of these companies.

Washington Federal Savings Bank, Washington, PA

Located in Canton Township, Pennsylvania, Falcon Properties, Inc., (formerly Mac Plastics) was forced into Chapter 7 bankruptcy in February of 1998. At the same time, the land that housed Mac Plastics was foreclosed upon. The plant was closed and 350 employees were displaced. In response, several concerned individuals came together and formed a partnership (Falcon Properties) and purchased the real estate. The same individuals formed a corporation (Falcon Plastics, Inc.) to purchase the assets of Mac Plastics. Federal Home

North Dakota's Champion of Affordable Housing

Gate City Bank, headquartered in Fargo North Dakota, demonstrated again this year its commitment to enabling residents in its lending area to achieve their goal of home ownership. Gate City was recently presented with North Dakota Housing Finance Agency's (NDHFA) *Championship of Affordable Housing* award. Last year alone, Gate City assisted 330 North Dakota individuals and families, resulting in the closing of \$21.3 million in first-time homebuyer loans. Gate City has provided approximately \$146.6 million in first-time homebuyer financing since January of 1986 in conjunction with NDHFA's First-Time Homebuyer Program. The Bank has also been recognized by the NDHFA as a Champion of Affordable Housing in 1995, 1996, and again in 1999.

The mortgage loans to first-time homebuyers are made in connection with NDHFA's Home Mortgage Finance Program. Participating lenders, such as Gate City, originate the loans and then sell them to the NDHFA. The HFA uses proceeds from the issuance of bonds to purchase the loans. This funding mechanism allows participating institutions to offer loans at lower interest rates to qualifying borrowers.

Gate City was also honored at the annual North Dakota Bankers Association meeting for outstanding community outreach efforts. As an example of these efforts, in 1999, Gate City applied for and received a \$200,000 Affordable Housing Program (AHP) grant from the Federal Home Loan Bank of Des Moines for a drug dependence rehabilitation facility located in Fargo. Gate City also

provided a \$150,000 loan at a below market (8 percent) interest rate to help complete the project.

The facility, Dakotah Pioneer Center, is located in downtown Fargo and consists of 31 apartment units. The Center is an innovative approach toward long-term assistance for individuals suffering from mental illness, chemical dependence or other serious disabilities. Independent but structured counseling, rehabilitation training and caring treatment is the major focus of the facility and its programs.

Another demonstration of Gate City's commitment to communities is through the homebuyer educational seminars that are provided at no cost. These seminars are held at the various Bank locations throughout the state and are conducted by Gate City loan officers. In 1995, Gate City began offering these seminars which, upon completion, qualify the participant(s) for certain types of home loan financing and also qualify them to receive at least a \$100 discount on the closing expenses should they decide to obtain home financing through the institution. Referrals are gained from local realtors and other financial institutions that may have a customer who needs the assistance.

Established in 1923 as Gate City Building and Loan Association, the Bank is now a \$600 million mutual that has 23 banking locations in North Dakota and Minnesota.

Questions about this article may be referred to Jason Sweat, OTS Midwest Region, at (972) 281-2206.

Loan Bank of Pittsburgh funding came in the form of a \$3,888,000 mortgage loan made through Washington Federal Savings Bank to the Washington County Industrial Development Authority in order to finance the purchase of the plant. The plant reopened in June 1998, and by September 1998, had new employees totaling 148. The plant has had a significant employment impact on the Washington area and the future looks even more favorable. The project was a Community Lending Program Specific Project for job retention in Washington County. As of September, 1999, Falcon Plastics employed 272 individuals.

Wilmington Savings Fund Society, FSB, Wilmington, DE

The Gateway House is a former Wilmington Housing Authority apartment building being renovated into fifty-four rental units, providing homes and other assistance to homeless individuals. Funding for the project from the Federal Home Loan Bank of Pittsburgh consisted of an AHP grant for \$200,000 secured through Wilmington Savings Fund Society. Funds were used to replace the six-month construction financing on the project and to cover the difference between the project cost and funding sources. Other funding

sources included loans and grants from the Delaware State Housing Authority, and from the City of Wilmington and New Castle County.

OceanFirst Bank, Brick, NJ

The Macedonia Senior Housing Project involves the construction of 50 units of rental housing in a three-story building for very low-income senior citizens. The project will be constructed on a vacant lot, which is owned by and across the street from the Macedonia Baptist Church. The project enjoys a wide range of support from the local community, and received funding from a variety of

sources. The Federal Home Loan Bank of New York's Affordable Housing Program funds will be used to fill a gap in the construction funding.

Citizens Financial Services, FSB, Munster, IN

The inability of very low-income homeowners to improve and maintain their residences tends to negate any initiatives intended to improve the quality of living within the city. The F A C A D E '98 project successfully addressed both concerns of improvements and maintenance. This unique partnership between Citizens Financial Services and the City of Hammond's Department of Planning created a pool of private and public funds that allowed recipients to make all needed improvements. The project also included a monthly escrow account requirement for future maintenance and unexpected repairs.

Funds for this project were contributed by Citizens (\$62,500), the City (\$275,000), along with a \$225,000 Affordable Housing Program advance from the Federal Home Loan Bank of Indianapolis, for a total of \$562,500. This pool provided individual loans of up to \$11,250 for repairs and improvements to 50 residences.

Citizens handled the underwriting, closing and servicing of the loans. Individual loan amounts were up to \$11,250. Citizens' portion of each loan was up to \$5,000 for a term of 5 years. The City of Hammond's portion of the loan (which had a deferred repayment schedule) was funded through CDBG funds. The portion of each loan that was funded through AHP advance funds was forgivable over a five year period.

According to Senior Vice President, Jeffrey C. Stur, Citizens had partnered

with the City of Hammond, IN on five previous projects involving FHLBI-AHP funds. These included two other Facade Programs, the Hammond Homestead Program to renovate abandoned properties for low- and moderate-income homeownership, and the renovation of a 6-unit apartment building. These programs have facilitated the renovation of over 90 homes in the area. The Facade 98 program was unique in that it allowed for interior improvements (such as plumbing, heating and electrical upgrades) as well as exterior improvements ■

Information for this article was taken from written material published by the Federal Home Loan Bank System, or from interviews with the financial institutions highlighted in this article. For more information about these partnerships, please contact the Community Affairs Liaison in your region.

“POWER BREAKFASTS”

Maryland Tax Credit and Loan Programs to be Showcased for Area Financial Institutions

The Office of Thrift Supervision's Southeast Region, together with the Federal Reserve Bank of Richmond, the Maryland Bankers Association, the Maryland State Commissioner of Banking and the Maryland Department of Housing and Community Development will co-host a series of “power breakfasts” this fall, targeted to thrifts and banks throughout the State of Maryland. The breakfasts, intended to introduce Maryland financial institutions to State community and economic development tax credit and loan programs, are the idea of officials of the State of Maryland Department of Housing and Community Development (DHCD). According to DHCD officials, though the State offers several tax credit and subordinate loan programs with significant benefits to financial institutions and other businesses, these programs are largely underutilized by Maryland financial institutions and unused tax credits and loan funds are being “rolled over” from year to year.

The breakfasts will focus on three DHCD programs: the *Heritage Preservation Tax Credit Program*, the

Neighborhood Partnership Program and the *Neighborhood Business Development Program*. The Heritage Preservation Tax Credit Program provides State income tax credits equal to 25% of the capital costs expended for the rehabilitation of “certified heritage structures.” Heritage tax credits can be used to reduce the State income tax obligations of owners of both income-producing and owner-occupied residential property or can be transferred to financial institutions, via “mortgage credit certificates,” in exchange for a reduction in mortgage loan principal or to ‘buy down’ interest rates on the permanent financing. The financial institution can then use the tax credits to reduce its own State income tax liability.

The Neighborhood Partnership Program (NPP) provides tax credits to business entities, including financial institutions, which make contributions to non-profit organizations addressing ‘critical needs’ in Maryland’s designated revitalization areas. Via the NPP, corporations can receive tax credits equal to 50% of the value of the contribution for DHCD approved projects. Non-profits apply to DHCD for tax credits to support specific activities such as literacy training,

jobs training and placement and affordable housing development. Once approved for an allocation of tax credits by DHCD, the non-profit can then pass the tax credits on to the business contributor. Any business in the State is eligible to earn tax credits, which can be carried forward for up to five years.

The Neighborhood Business Development Program (NBDP) provides “gap financing”, up to 50% of project costs, to small businesses locating or expanding in designated “neighborhood revitalization areas” in communities throughout the State. Loans are available at below market rates for amounts ranging from \$25,000 to \$500,000. Eligible activities include real estate acquisition, new construction or renovation, leasehold improvements, machinery and equipment purchases and working capital.

DHCD officials say Maryland businesses, including banks and thrifts, are losing out on millions in State tax credits. According to DHCD, over the past four years, State businesses have accessed some \$1 million in Neighborhood Partnership Program (NPP) tax credits, for instance, but an additional \$2 million in unused NPP tax credits is being held undistributed by non-profits throughout the State. In addition to tax credits from the State, businesses also are able to claim those NPP contributions to non-profits as “charitable contributions” on their federal income tax returns.

DHCD officials hope the “Power Breakfasts” will help Maryland financial institutions better understand the benefits of the tax credit and loan programs.

For users of the programs, however, their benefits are clear. Availability of tax credits and subordinate, low-cost “gap” financing have made economic development and community revitalization projects affordable.

Take the case of Elkton Florist - Diane’s Hallmark in Elkton Maryland, owned by Dwight and Diane Hair. The Hairs used a subordinate, low-interest Neighborhood Business Development Partnership loan to reduce the principal on a loan from Cecil Federal Savings Bank (Elkton), to finance a new and expanded florist-card shop location. The project involved the acquisition and renovation of a former gas station property in a redevelopment area of downtown Elkton.

According to Diane Hair, the NBDP loan made the project affordable. “Small, neighborhood businesses just cannot afford high interest loans,” said Hair. “It [the NBDP loan]

helped us have a growing viable business. It’s good to know our tax dollars are going to help small business people,” she said.

Sandra Feltman, who made the original Cecil Federal loan to the Hairs, said the availability of subordinate, gap financing from NBDP “helps the bank do more and at a quicker pace than it would normally be able to,” referring to the principal reduction on Cecil Federal’s loan to the Hairs. According to Feltman, her experience working with the State program was a good one. “I would use the program again,” she said.

Dan Higham, Vice President, Susquehanna Bank (Baltimore), has participated in both the Neighborhood Partnership Program and the Neighborhood Business Development Partnership loan program and says, “these programs are user friendly and provide banks with excellent opportunities to service their communities.” According to Higham, NPP’s tax credit application process, essentially “pre-screens” the project. “All the bank has to do is pick an organization serving its neighborhoods and fill out a simple form to be submitted with the contribution to the non-profit recipient,” remarked Higham. “As for the Neighborhood Business Development Program,” Higham continued, “by providing below market rates and subordinated financing, the program enabled us to make a deal work for a small business located in a neighborhood targeted for revitalization.”

Susquehanna Bank was the primary lender in the Helen’s Garden restaurant expansion project located on Canton

Square in Baltimore. Subordinate, gap financing was provided by DHCD via the Neighborhood Business Development Program.

Other projects using DHCD funding include a renovation of the historic William Dunn House in Chestertown on Maryland’s Eastern Shore — Richard and Joan McCown used Heritage Preservation Tax Credits to write down the cost of renovating the 18th century home — and Poland Eye Care Associates, Cumberland, Maryland. The father and son optometry practice used a NBDP loan to provide needed gap financing for a new, state-of-the-art location in a revitalization area in downtown Cumberland.

“Programs such as these are the cornerstone of our neighborhood revitalization efforts,” said DHCD Secretary Raymond A. Skinner. “By combining innovative programs with tax incentives, Maryland promotes partnerships with the private sector to invest in the viability of existing communities. This is a fundamental principle of Governor

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Parris N. Glendenning's Smart Growth initiative, which encourages development in traditional neighborhoods to help slow sprawl and preserve open space. I hope the networking and sharing at the "Power Breakfasts" will demonstrate how the State's neighborhood revitalization programs can be used as investment tools to assist financial institutions in Maryland and their customers."

DHDC "Power Breakfasts" are scheduled in Baltimore, Frederick and Easton, Maryland and will be held October 11, 12 and 13. OTS Director Ellen Seidman will be the keynote speaker at the Baltimore breakfast event on October 11 and

the Frederick event on October 13. Maryland thrifts should anticipate receipt of event registration materials in early September. Registration will also be available on-line at the web site of the co-sponsors ■

For more information on any of the programs discussed above, please call Tara Clifford at the Maryland Department of Housing and Community Development at (410) 209-5819 or check DHCD's web site at www.dhcd.state.md.us, or you may contact Lynn Bedard, OTS Southeast Region, at (404) 888-8443.

Visions 2000 For The 21st Century: *Native American Housing and Economic Development Conference*

On July 24 and 25, approximately 350 people from across the country participated in the Visions 2000 Native American Housing and Economic Development Conference. The Northeast Region Community Affairs Department and the United South And Eastern Tribes Inc. (USET) jointly sponsored the conference held at the Foxwoods Conference Center on the Mashantucket Pequot Reservation in Connecticut. USET is an intertribal organization of 24 Federally recognized Native American Indian tribes located in the Southeast and Eastern United States.

In her remarks on day two of the conference, Director Seidman noted that this was the third large conference that OTS has sponsored or co-sponsored on the subject of housing and economic development on tribal lands. "Given the size of the OTS-regulated thrift industry and its heavily urban concentration, one might wonder whether we've lost our orientation," says Seidman. "We haven't." As Director Seidman explains, "...one of [OTS'] long-term strategic goals is to actively support the thrift industry's efforts to expand the full range of housing, other credit, and financial services to all segments of the community through outreach programs, industry partnerships, and

proactive supervision. By helping the institutions we regulate understand the needs and opportunities in Indian country, we are supporting them in serving all segments of the community and helping them find profitable new markets besides."

The conference was designed to highlight the loan, loan guarantee and subsidy programs available to tribal groups and financial institutions for housing and economic development, and to showcase successful strategies employed on tribal lands using a combination of tribal funds, federal programs and private sector financing. In addition, there were exhibitors and presenters discussing opportunities for profitable investment in Indian country through vehicles like equity funds utilizing Federal Low-income Housing Tax Credits.

The White Mountain Apache tax-exempt bond financing for single-family housing was one of the unique transactions presented at the conference. Led by John Weideman, counsel to the White Mountain Apache Housing Authority, the panel made a presentation on this highly structured bond issue that is being used to finance 250 single-family units in a housing development called Apache Dawn. The private - public sector partnership involving Bank One represented by

Donna Sheline, U.S. Bancorp Piper Jaffray represented by Robert Sonnek and A.J Consulting Services raised \$25 million. The bond proceeds were used by the Tribal Housing Authority to purchase Ginnie Mae securities backed by the individual HUD Guaranteed Section 184 loans made by BankOne Mortgage Corporation to finance the 250 units. The interesting feature of this transaction is that the qualified residents of the Apache Dawn homes will not be obligated on the Section 184 loans, but instead will be required to pay rents to the Housing Authority, who is the obligor on the mortgages. The transaction is structured such that the monthly rent payments equal the monthly principal and interest payments that the Housing Authority uses to pay the mortgage loans. In the long run, the tenants will own the units after receiving homeownership education, establishing their credit worthiness and becoming qualified for the Section 184 loan program.

Fannie Mae and Ginnie Mae have pledged to purchase all the Section 184 loans made in Indian Country. This gives thrifts and banks that adopt the program the flexibility to either hold these loans in portfolio or sell them. Asked whether BankOne chose to do this transaction because of CRA credits, Donna Sheline said that it was simply a profitable venture and they

did not take any CRA credits into account in the decision making process. *(For further information on this transaction, contact John W. Weideman at (480) 991-1441).*

Jackie Johnson, Deputy Assistant Secretary of HUD for Native American Programs led a discussion of the "One Stop Mortgage Centers" initiative being piloted on the Pine Ridge and Navajo reservations. Both models are designed to enhance private and public sector partnerships for mortgage loans, help develop the capacity for housing counseling and home maintenance training, and streamline the mortgage lending process. The One Stop Mortgage Center initiative commenced following an Executive memorandum from President Clinton in 1998 that directed the Secretaries of HUD and Treasury to streamline the mortgage lending process in Indian Country. To date, each reservation has closed a number of mortgage loans using a variety of federal loan and loan guarantee programs. In addition, the first conventional loan on the Navajo trust land was made in July and sold to Fannie Mae as part of a new lending initiative (see insert).

While there are now a number of government and secondary market programs that make it easier and more attractive to do business on tribal lands, Director Seidman and others noted that the programs are woefully underutilized by banks and thrifts. These programs include HUD's Section 184 Loan Guarantee Program, the NAHASDA Title VI Program, the USDA Rural Development loan and loan guarantee programs, and the SBA programs. Director Seidman urged financial institutions to familiarize themselves with these programs and to

explore opportunities for doing business with tribal groups that have an interest in doing business with them. "Ultimately, for [financial institutions] this is really about expanding your markets, developing new customer bases and building your business. It's what you do", said Director Seidman. "That is never a risk free proposition. Your business centers on taking risks-calculated, strategic risks, but risks nonetheless. Risk is inherent in any new market you seek, any new customer base you develop, any new product you offer-this is no different. The upside will be the reward of loyal new customers. In this time of heavy competition, the opportunity to

develop new markets, such as tribal communities, should be an attractive one."

The conference agenda included two very special events. One was the viewing of the movie "Naturally Native" a poignant and

insightful film about the issues, obstacles faced and lessons learned as three sisters of Native American ancestry struggle to be part of today's American culture while retaining their Native American heritage." The film was written, produced, and directed by Valerie Red-Horse, who also stars in the film as one of the three sisters. Ms. Red-Horse is also the Chairman of Native Nations Securities, Inc., the first Native American owned stock brokerage services company and NASD member firm located on Wall Street.

Conference attendees were also treated to a tour of the Mashantucket Pequot Museum and Research Center, an extraordinary tribute to the life and times of the Mashantucket Pequot Nation and its members. The museum takes the visitor through time, beginning with the Ice Age to present day. Exhibits, housed on three different floors of this enormous facility include

life size re-creations of tribal villages and theaters for viewing films on the history of the tribe ■

Please contact Community Affairs Liaison Francis Baffour, OTS Northeast Region, at (201) 413-7343 or Community Affairs Specialist Wendy Pelle Beer at (201) 413-7509 if you need any information on the topics or products discussed at the conference.

Navajo Nation and Fannie Mae Announce

New Homeownership Opportunities on Tribal Lands

On July 17, Navajo Nation President Kelsey Begaye joined representatives from the Navajo Partnership for Housing (NPH), PMI Mortgage Insurance Company, and Fannie Mae to celebrate the closing of the first conventional mortgage loan on Navajo trust land. The event was held at the newly constructed home of the Maldonado family, which was purchased using the Navajo Conventional Lending Initiative, one of the new innovative mortgage products now available on Navajo Trust Land. The loan was made by Suburban Mortgage of Albuquerque, New Mexico and was purchased by Fannie Mae.

Financing the purchase of a home on Navajo trust land has been possible since 1996 when the Navajo Nation approved the use of legal documents designed by Fannie Mae to work within the Tribal Court structure. However, access to mortgage financing was only one obstacle to homeownership on the Navajo Nation. Other obstacles included: difficulty in obtaining homesite leases; appraising the market value of homes in sparsely populated areas; the need for multiple approvals from various tribal agencies; and the reluctance of contractors to build homes on the reservation. Additionally, like many communities without a

Director Seidman and others noted that the programs are woefully underutilized by banks and thrifts

tradition of homeownership, residents of the reservations face challenges of saving for a down payment and overcoming past credit problems.

Under the Navajo Conventional Lending Initiative, private contractors are now being used on new home construction and appraisals are being based on the cost to build rather than on comparable sales. In addition, Fannie Mae, the Tribe, PMI and lenders worked together to make the following flexible mortgage products available to qualified borrowers of any income level:

Navajo Conventional Lending Initiative: this mortgage allows a minimum down payment of 3 percent of the purchase price for the purchase of a newly constructed home on trust land. The remaining 2 percent in down payment funds and closing costs may be provided through the Navajo Partnership for Housing down payment assistance programs or from a gift or other non-profit source.

PMI Mortgage Initiative: this mortgage initiative allows a very low down payment of 1 percent and additional flexibilities for borrowers who have had minor credit difficulties in the past. The remaining 2 percent down payment and closing cost funds may be provided by the Navajo Partnership for Housing down payment assistance program or gift or grant from a non-profit. The mortgage is available for the purchase of a new home or the purchase and rehabilitation of a previously owned home.

All mortgage products require home-buyer education, which will be provided by the Navajo Partnership for Housing. Loans will be originated by Suburban Mortgage, Credit Union Mortgage Services, First American Credit Union, Citizens Bank of Farmington and Jewell Carrol Enterprises in Durango. Fannie Mae will purchase the loans ■

For information about how to obtain a mortgage for the purchase of a home on Navajo trust land, contact Roberta Drake at the Navajo Partnership for Housing at (520) 810-3114.

Virginia's New and Innovative Housing Preservation Tool

As the United States enters the twenty-first century, affordable rental housing is at risk. The majority of affordable rental units in this country were built and financed for the HUD Section 8 and HUD Section 236 subsidized rent programs. HUD has made programmatic changes to Section 8 that have prompted management companies to remove their properties from the low-income roles and increase rents to market-rate in order to provide a positive cash flow on their properties. To compound this problem, a recent HUD study reported that the new high tech global economy is creating staggering jumps in home prices and raising rents more than 1.5 times faster than the rate of inflation. Low-income families, faced with the decision to accept the rent increases or move, are moving. According to HUD Secretary Andrew M. Cuomo, "the worst case housing needs have hit an all time high, with 5.4 million families paying more than half of their income for housing or living in severely inadequate quarters." Affordable units have become increasingly scarce, particularly in Virginia.

A Virginia legislative study begun in 1998 recommended that a CDFI (Community Development Financial Institution) be established within the Commonwealth to help address the housing affordability problem in Virginia. In December 1999, the Housing Study Commission, which reports to the legislature, asked the Virginia Housing Development Authority (VHDA), to get involved in structuring a CDFI that would both appeal to investors and be able to preserve affordable rental housing.

The sole purpose of the CDFI is to attract private lending capital in order to provide gap financing to developers who wish to preserve the affordability of units.

VHDA staff prepared the CDFI's applications to obtain Treasury Department approval and 501(c) 3 non-profit status. VHDA also has agreed to house and staff the CDFI on a fee basis, providing office space, technical support, underwriting, accounting services and loan servicing. This cost-effective solution allowed the CDFI to "rent" expertise as needed and not incur the typical high cost start-up expenses of full-time staff and office space. In addition, the retired executive director of VHDA, John Ritchie, Jr. volunteered to serve in a management position, providing superior leadership to the CDFI. John E. Gallagher, vice president of public finance at Fannie Mae, serves as chairman of the board.

The Virginia Foundation for Housing Preservation (VFHP), was approved by the Department of the Treasury as a CDFI on June 13, 2000. It is expected that the organization will become a major vehicle for private investment for the preservation of affordable housing. The Virginia Foundation is neither a government entity nor controlled by a government entity. A majority of its board members are nongovernmental persons. Bank of America, First Union, Capital One and SunTrust are represented on the board and are expected to be major investors in the VFHP at below market rates.

The foundation operates on a simple premise: developments require a positive cash flow before they can attract financing. A positive cash flow is often impossible if developers must borrow funds at current interest rates and keep the rents at below market levels. The CDFI will be able to borrow relatively short-term private capital at below market rates. These funds will be reinvested in high yielding housing securities. The CDFI will use the earnings from the spread to make long term, zero percent loans and grants to developers, which will allow them to charge lower rents.

Investors are thrilled with the CDFI because it accomplishes two things quite well. First it allows investors to make CRA-eligible investments that may qualify for a 15 percent rebate from the US Treasury Department in the form of a Bank Enterprise Award. In addition, investments in the CDFI yield a guaranteed rate of return. Moreover, the principal is safe and will be returned at the end of the loan term because it is secured by an investment rated AA or higher. Interest will be paid semi-annually to the investor for the loan term.

The mission of the Virginia Foundation for Housing Preservation is to ensure the affordability of low-income multifamily projects statewide. The loan fund anticipates offering "gap" financing to developers who need the below market financing in order to keep the rents affordable to incomes at or below 60 percent median and maintain a positive cash flow. The fund anticipates offering the 0% loans and grants when possible to smaller projects (less than 50 units) to yield the greatest benefit. The funds will be available for rehab or new construction projects. However, preference will be given to projects that are in danger of being converted to market rate and need the gap funds to help cover the rehab cost while still keeping rents affordable. The loan fund began making loan commitments in February 2000 and expects to offer another round of commitments in the fall of 2000.

In its first six months of operation, the Virginia Foundation for Housing Preservation garnered support from several areas. The Fannie Mae Foundation lent the CDFI \$250,000 at 1 percent interest. The Fannie Mae Corporation lent the CDFI \$10,000 and is considering investing even more

in the fall of 2000. First Union National Bank made a \$2 million investment into the CDFI in June 2000. Capital One Financial has pledged a grant of \$25,000 and intends to invest in the spring of 2001. Bank of America and SunTrust Bank are currently considering CDFI applications for \$2 million each. Employers located in high cost areas of the state are being requested to invest in the CDFI as a way of ensuring affordable rental housing for their employees.

The Virginia Foundation for Housing Preservation will not solve the entire affordable housing shortage in Virginia, but it is an exciting development that will give options to owners of multifamily projects who desire to keep their projects affordable. It may also serve as a model for other states that are seeking tools to address the shortage of affordable multifamily housing ■

For further information on the VFHP, call Ann Bolen, CFO, (804) 343-5605. For information about the CRA treatment of an investment in VFHP, call Lynn Bedard, Community Affairs Liaison, OTS Southeast Region, at (404) 888-8443.

Section 8 Vouchers and Homeownership

NeighborWorks® Involvement

Neighborhood Reinvestment Corporation has been working with NeighborWorks® organizations to develop a model for using a Section 8 voucher toward a mortgage. In partnership with their local public housing authorities (PHA), the Community Development Corporation (CDC) of Long Island and Affordable Housing Resources of Nashville are demonstration projects under the interim rule - proposed by HUD on April 30, 1999. In addition to providing pre- and post-purchase counseling and education, both groups will be providing a gap-filling second mortgage through their revolving loan funds - an essential component that makes this approach work in more markets and for more families as rates and terms are

tailored to the individual buyer's needs. Two other NeighborWorks® organizations - Home Headquarters (Syracuse) and Burlington Community Land Trust - have also been involved with Section 8 demonstration projects by providing homeownership education and counseling, and downpayment and closing cost assistance.

CDC of Long Island

The CDC of Long Island is a local administrator for the Section 8 Program in Suffolk County, which places it in a unique position as there is no local PHA with which to coordinate. The CDC has an excellent relationship with the

New York Division of Housing and Community Renewal, which is the statewide PHA. The major obstacle to making this program work in Long Island is the high housing costs; the median home sales price in Suffolk County is over \$170,000. The CDC plans to tap into its Family Self-Sufficiency (FSS) Program for Section 8 demonstration program participants. The CDC's FSS Program has 125 participating households, many of whom have accumulated a significant escrow. The highest FSS escrow is \$17,000, with 21 participants with an escrow of over \$5000.

Affordable Housing Resources of Nashville

Affordable Housing Resources worked closely with the Nashville Metropolitan Development and Housing Agency - the local Section 8 administrator - on the demonstration program proposal. Although Nashville's median sales price is lower than that of Long Island, Affordable Housing Resources anticipates that a second mortgage will also be crucial for making the demonstration work in Nashville. They also plan to target participation initially to FSS participants. The Metropolitan Development and Housing Agency currently has 180 FSS participants who have in total nearly \$500,000 in escrow accounts. The highest FSS escrow is over \$17,000, with 40 participants with an escrow of over \$5000.

The Concept

The interim rule could pose two barriers to implementation in some markets:

A family may receive up to ten years of Section 8 mortgage assistance, which is less than the term for most mortgages (this requirement does not apply to elderly or disabled families); and

The family's Section 8 voucher is renewed annually and therefore is not "guaranteed" for more than a year.

Combined, these issues pose a hurdle to a traditional single mortgage approach using Section 8 vouchers. The NeighborWorks® approach to Section 8 uses two mortgages, allowing the family to capitalize fully on the additional income that a voucher brings; this lending approach is backed by intensive homebuyer education.

First Mortgage - An Amount the Family Can Afford

The first mortgage will be a traditional lender-client relationship and made by a local conventional lender. The loan principal, interest, taxes and insurance will be based on 30 percent of the family's income. The Section 8 voucher *will not* be used toward this first mortgage; only the family's income will be used to calculate the conventional first mortgage.

Second Mortgage - Covered by Section 8 Vouchers

The difference between the purchase price of the home and the first mortgage - which the participant can afford without Section 8 assistance - will determine the amount of a second mortgage. Initial projections indicate that the second mortgage can be retired fully within the interim rule's ten-year limit. The second mortgage term, however, will vary greatly depending upon the family's income, the house price and the voucher amount. The CDC of Long Island or Affordable Housing Resources will hold the second mortgage. Instead of going to the family, the monthly voucher will be paid to the CDC or Affordable Housing Resources. In this way, the voucher is "invisible" to the traditional lender and the family.

Pre- and Post-Purchase Counseling

The interim rule requires participants in the Section 8 homeownership program to complete homebuyer counseling. Families will be referred to the CDC and Affordable Housing Resources, which are full-service centers and designed to work with families for up to several years to help them achieve homeownership. The coursework includes home maintenance, budgeting, money and credit management, information about a variety of mortgage products, and how to locate and negotiate the purchase of a house. Both Affordable Housing Resources and CDC of Long Island plan to enhance their counseling curriculum to better address the issues faced by Section 8 participants.

Other NeighborWorks® Involvement

The Burlington Land Trust and Home Headquarters in Syracuse are also involved with a Section 8 demonstration model, although different from what Long Island and Nashville proposes. Burlington Land Trust and Home Headquarters provide only the homeownership counseling, with financing provided by other sources. In Burlington, the mortgage will be bought by the state housing finance agency. Both organizations provide downpayment and closing cost assistance.

Setting a National Model

The potential for this approach is powerful and significant on a national level. The CDC expects to serve 45 families under this program over three years. Affordable Housing Resources anticipates serving half of CDC's estimate. Benefits of using vouchers for mortgages and using the NeighborWorks® approach include:

- Decreasing the term on Section 8 assistance - Affordable Housing Resources estimates that on average the second mortgage will be retired within six years while the CDC expects most second mortgages to retire within eight years;

- Both Affordable Housing Resources and the CDC of Long Island expect FSS participants to use the escrow account as a source for downpayment.

HUD Approval

Since the Section 8 for homeownership rule is still interim with the final expected out in April, sites must obtain approval from HUD in order to become a demonstration project. The Nashville Metropolitan Development and Housing Agency — the administrator of the Section 8 program — received approval in early February and the CDC of Long Island received approval in early March.

Implementation Progress

In April, the CDC of Long Island received a \$1 million program related investment from Fannie Mae for the second mortgage pool. In August, the first family in the program closed on their home.

Affordable Housing Resources held the first orientation meeting for people interested in the program. Of the 35

eligible families, 33 participated in the May meeting. Thirty-one families initiated the next step in the program - a one-on-one counseling session that is the precursor to homebuyer education classes.

Neighborhood Reinvestment

Neighborhood Reinvestment Corporation is the founder of the NeighborWorks® network and strengthens it through training, technical assistance and funding. The more than 200 members of the NeighborWorks® network are active in nearly 1,400 communities across the nation, working to revitalize communities and make housing affordable. In the last five years, this network has stimulated reinvestment of \$3.2 billion and helped more than 100,000 lower-income families to purchase their homes ■

For additional information on Section 8 Vouchers and NeighborWorks® Homeownership Involvement, please contact C.J. Eisenbarth Hager, Congressional Liaison, Neighborhood Reinvestment Corporation, at (202) 220-2326.

Upcoming Events and Training Opportunities . . .

October 2-5: Vail, Colorado. *Colorado Housing NOW* will hold its 12th annual conference at the Vail Cascade Hotel & Club. The conference will feature speakers, workshops and events that focus on providing ideas specially related to housing issues, trends and successes in the State of Colorado. For information, please contact Jackie Hahn at (303) 404-2285.

October 11-12: Washington, D.C. Freddie Mac credit symposium, *Opening Doors to Credit Opportunities: Pathways to Financial Success*. Registration information to be announced. Please refer to their website at www.freddiemac.com

October 16-20: Tampa, Florida. Neighborhood Reinvestment Corporation's *National Training Institute*. For information, call (800) 438-5547 or visit the web at www.nw.org.

October 18: Des Moines, Iowa. OTS and the Rural Home Loan Partnership will co-sponsor *Bridging the Affordability Gap*, a workshop on financing affordable homeownership in rural Iowa, Illinois, Missouri and Wisconsin. The workshop will demonstrate how RHS' leveraged loans and other subsidy sources can assist low- and moderate-income families in rural America with homeownership. For additional information about this workshop, you may call Roberta Youmans, Federal Housing Finance Board, at (202) 408-2581.

October 25: OTS and the SBA, in cooperation with the Federal Reserve Bank of Kansas City, are sponsoring a *Small Business Lending Workshop* from 8:30 am to 1:00 pm at the Federal Reserve Bank of Kansas City. For more information, contact Jay Sweat at (972) 281-2206.

November 12-15: Atlanta, Georgia. The Enterprise Foundation's 19th Annual Network Conference — *Community Solutions*. For information, you may call the network conference hotline at (410) 772-2418 or refer to their website at www.enterprisefoundation.org/training/netconf.

November 16: Denver, Colorado. OTS and SBA, in cooperation with the Federal Reserve Bank of Kansas City, are sponsoring a small business lending workshop from 8:30 am to 1:00 pm at the Federal Reserve Bank, Denver Branch. For more information, contact Aaron Satterthwaite at (972) 281-2114.

December 6-9: Washington, D.C. The Housing Assistance Council will host *Strengthening Our Communities: The National Rural Housing Conference 2000* at the Hyatt Regency on Capitol Hill. The conference offers the best available workshops, training, policy roundtables, and networking opportunities for people interested in rural affordable housing. For information, please call HAC at (202) 842-8600 or refer to their website at www.ruralhome.org.

Future editions of the Community Liaison will highlight thrift industry community development activities and related issues and regulatory initiatives. We welcome your comments, as well as information about your institution's community development activities. Please contact your regional OTS Community Affairs Liaison, or write to us at our email address: **community@ots.treas.gov**. We look forward to hearing from you.

The Office of Thrift Supervision (OTS), a bureau of the U.S. Treasury, regulates and supervises the nation's thrift industry. OTS's mission is to ensure the safety and soundness of thrift institutions and to support their role as home mortgage lenders and providers of other community credit and financial services.